


During June of 1999 GASB, issued Statement No. 34 which requires state and local governments- including school districts- to change the format of the familiar Comprehensive Annual Financial Report. GASB believes the new annual reports will provide district officials a new and more comprehensive way to demonstrate their stewardship covering both the short term and long term. Additionally, GASB believes enhanced budgetary information will provide statement users with another useful measure of district leadership's management ability and efficiency.

As we will show you today, the changes GASB has made to school district financial reporting through the issuance of GASB Statement No. 34 are very significant.

### Introduction to GASB 34

- Who is GASB?
- What does GASB have to do with NJ school districts?
- When - background on GASB 34
- Why GASB 34?



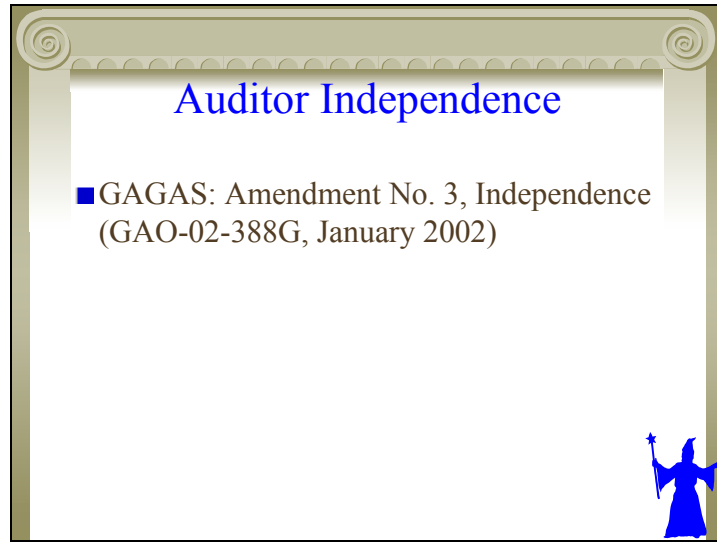
This slide introduces GASB and explains why GASB 34 is important to New Jersey's school districts. The Governmental Accounting Standards Board (GASB) is an independent standard setting body responsible for developing standards of state and local governmental accounting and financial reporting. GASB's mission is to set standards that will

- Result in useful information for users of financial reports, and
- Guide and educate the public, including issuers, auditors, and users of financial reports.

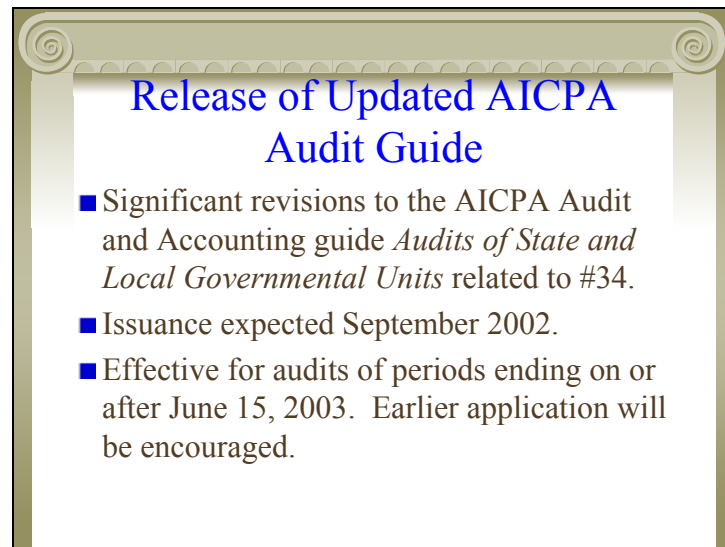
What does GASB 34 have to do with NJ school districts? It is GASB Statement No. 34 that sets the standard format for financial reports prepared in conformity with generally accepted accounting principles. New Jersey school districts, in accordance with New Jersey Administrative Code, must maintain books and records in accordance with generally accepted accounting principles. New Jersey Permanent Statutes require a uniform system of double entry bookkeeping that is consistent with GAAP as established by GASB.

When did GASB begin work on GASB 34? Seventeen years ago GASB recognized the need to enhance financial reporting for state and local governments and began the reform process by forming various task forces culminating in the issuance of GASB 34.

Why GASB 34 for New Jersey school districts? New Jersey school districts finance their activities primarily with tax dollars derived from the citizens of New Jersey. Financial statements prepared in accordance with the format prescribed by GASB Statement No. 34 will provide enhanced accountability to the taxpayers that support New Jersey's public schools. Other interested users might include financial analysts whose activities might affect your district's ability to raise capital.



Auditors and districts are encouraged to consult with Government Auditing Standard: Amendment No. 3, Independence, issued January, 2002 for answers to their questions surrounding independence issues related to GASB 34.

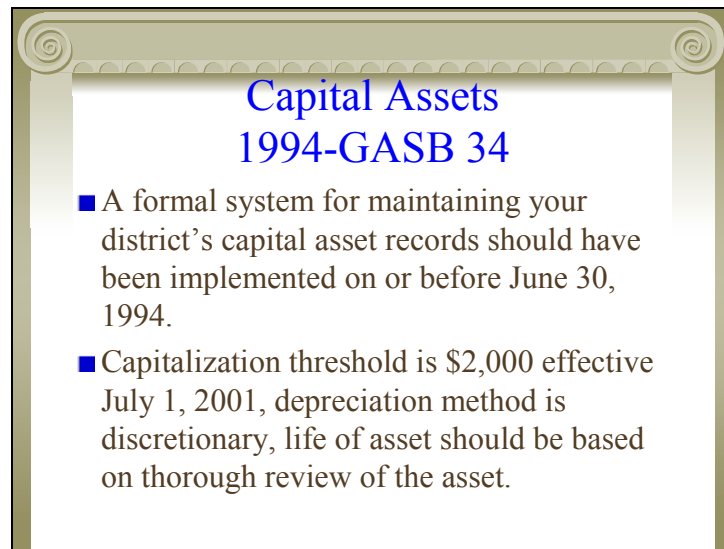


The AICPA Audit and Accounting Guide *Audits of State and Local Governmental Units* requires significant revisions to reflect the new reporting requirements of GASB 34. The AICPA and GASB have been working together and on March 7<sup>th</sup> voted to clear the guide for release with updates September 2002. The new provisions will be effective for audit periods ending on or after June 15, 2003, but earlier application will be encouraged.

The amendments to the guide are concentrated in the auditing guidance area with a focus on the new financial reporting model. The guide will introduce and explain the new concept termed “opinion units” and how opinion units are used to determine materiality for purposes of planning, performing, evaluating the results of, and reporting on the audit of financial statements.

Auditor’s reports may look significantly different as a result of the new opinion unit concept. The new guide should contain examples of the new report format. The guide should also provide guidance relating to the transition to the reporting provisions of GASB 34.

District auditors are urged to obtain and implement this guide upon its anticipated release this September. Where appropriate, application to current year audits is encouraged by the Department.



**Capital Assets  
1994-GASB 34**

- A formal system for maintaining your district's capital asset records should have been implemented on or before June 30, 1994.
- Capitalization threshold is \$2,000 effective July 1, 2001, depreciation method is discretionary, life of asset should be based on thorough review of the asset.

A formal system for maintaining your district's capital asset records should have been implemented on or before June 30, 1994. GASB 34 integrates the existing concepts of capital asset reporting, including historical capitalized cost, accumulated depreciation and depreciation expense into the new district-wide financial statements required to be presented in the new CAFR format. Paragraph 157 of GASB 34 states the initial capitalization amount should be "based on historical cost." If determining historical cost is not practical because of inadequate records, estimated historical cost may be used. Districts are cautioned to base their estimates on verifiable evidence such as bond documents used to obtain financing for construction or acquisition of assets. Capital assets placed in service by New Jersey school districts on, or prior to, June 30, 2001 were subject to a capitalization threshold of \$500. As long as these assets remain in service to your district, they are to be depreciated annually until fully depreciated. Removal of a capital asset from district records may take place only upon the approval of the district's board of education. Assets acquired after June 30, 2001 by New Jersey school districts, are subject to a capitalization threshold of \$2,000. Refer to DOE letter issued June 28, 2001.

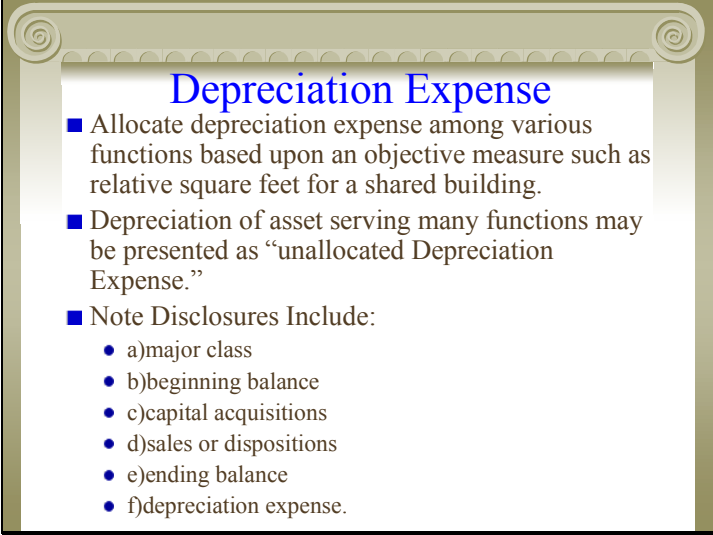
Per GASB 34, districts may use any established depreciation method; and useful lives are to be based upon documented evidence such as:

- a) General guidelines obtained from professional or industry organizations such as in ASBO's Blue Book
- b) Information for comparable assets of other similar governments, or
- c) Internal information such as prior documented experience with similar assets

Note that GASB considers schedules of useful lives recommended by professional organizations to be a useful starting point. GASB further believes that schedules of depreciable lives established by federal or state tax regulations are generally not intended to represent useful lives for financial reporting purposes. In determining estimated useful life, a district should consider an asset's present condition, current and projected use, effectiveness of the district's preventive maintenance policy, and other variables to be factored in at the district's discretion.

The depreciation method selected should be from among the existing established methods. The most common method is the straight-line method of depreciation that ratably expenses the capitalized cost over the useful life of the asset.

Slide 7

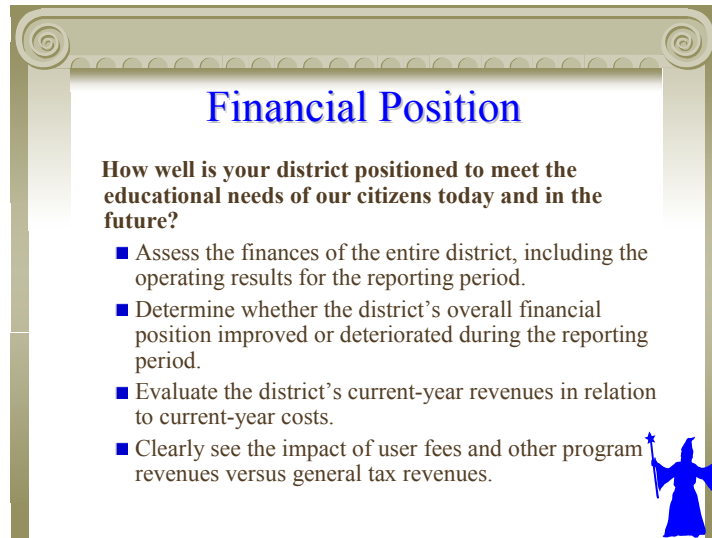


**Depreciation Expense**

- Allocate depreciation expense among various functions based upon an objective measure such as relative square feet for a shared building.
- Depreciation of asset serving many functions may be presented as “unallocated Depreciation Expense.”
- Note Disclosures Include:
  - a)major class
  - b)beginning balance
  - c)capital acquisitions
  - d)sales or dispositions
  - e)ending balance
  - f)depreciation expense.

GASB provides guidance on how to report depreciation expense within the district's financial statements. Depreciation expense for capital assets that can be specifically identified within a function or program and shared capital assets is required to be included in the direct expenses of functions or programs. GASB defines shared capital assets as the number of functions a particular asset serves. As the number of functions increases, a district will be less able to allocate depreciation effectively and efficiently across the functions the asset serves. The exercise would simply be futile. Therefore, depreciation of assets that serve many, or essentially all functions is not required to be included in the direct expenses of those many functions. For shared assets for which depreciation expense can be effectively and efficiently calculated by function, do so. Use an objective measure such as relative square footage for a shared building or mileage for a shared vehicle. Depreciation that is not allocated to a program or function should be clearly presented as “unallocated depreciation” or “depreciation expense not included in other functions” within the financial statements.

GASB requires specific capital asset disclosures in the notes to the financial statements. Included is information for each major class of capital asset such as - buildings, vehicles, machinery and equipment. For each class the beginning and end of year balances, capital acquisitions, sales or other dispositions, and current depreciation expense are to be disclosed. Additionally, the amounts of depreciation expense charged to each of the functions in the statement of activities should be disclosed.



## Financial Position

**How well is your district positioned to meet the educational needs of our citizens today and in the future?**


- Assess the finances of the entire district, including the operating results for the reporting period.
- Determine whether the district's overall financial position improved or deteriorated during the reporting period.
- Evaluate the district's current-year revenues in relation to current-year costs.
- Clearly see the impact of user fees and other program revenues versus general tax revenues.

GASB has designed the statements to answer the question “How well is your district positioned to meet the educational needs of our citizens today and in the future?” The changes to the CAFR were made after many years of research and input from those most closely involved with governmental financial reporting. The revamped financial report is designed to permit a reader to draw his or her own conclusion as to the financial position of the school district. GASB’s intent is to provide the users of the financial report with understandable information such as the cost of providing public education before general revenues such as property taxes are factored in. The new CAFR will provide the information necessary to allow the reader to determine how well their district is positioned to meet the educational needs of their citizens today and in the future. The reader should be able to:

- Assess the finances of the entire district, including the operating results for the reporting period.
- Determine whether the district's overall financial position improved or deteriorated during the reporting period.
- Evaluate whether the district's current-year revenues were sufficient to pay for current-year costs.
- Clearly see the impact of user fees and other program revenues versus general tax revenues.

## GASB 34 Implementation Overview

- Follow GASB 34 Phase in Implementation
- Criteria for determining which phase
- Number of NJ districts in first phase

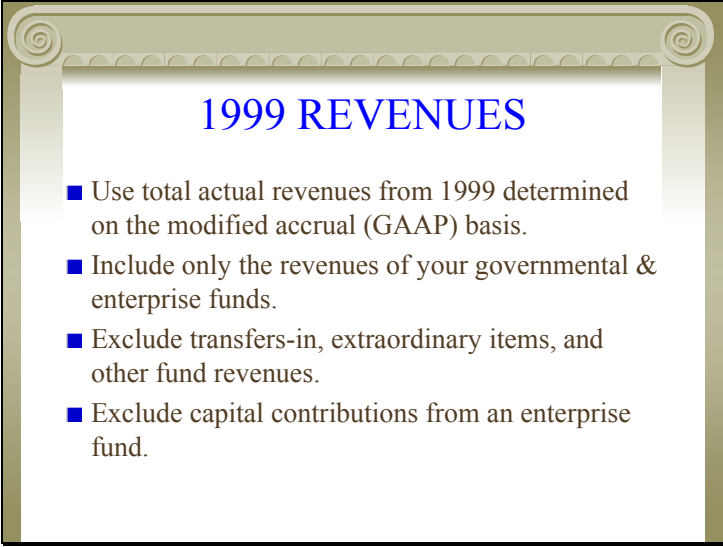


<u>Phase</u>	<u>Total Annual Revenues</u>	<u>Effective FY Beginning</u>
One	\$100M or more	July 1, 2001
Two	\$10M to less than \$100M	July 1, 2002
Three	Less than \$10M	July 1, 2003

All New Jersey school districts will be required to implement the provisions of GASB Statement No. 34. The timing of the required implementation is based upon the districts' revenues for the period ended June 30, 1999. For districts that have not already done so, one action step you should perform when you leave here today is to determine the level of revenue for your district for the period ending June 30, 1999. You will use that revenue figure at June 30, 1999 and this implementation schedule to determine the required implementation date for your school district.

You will need to know which revenue items to include in your implementation calculation. GASB 34 requires that districts use total actual –not budgeted- revenues determined on the modified accrual (GAAP) basis. Districts should include only the revenues of their governmental and enterprise funds. Exclude other financing sources such as transfers-in, also exclude extraordinary items, internal service fund revenue, and fiduciary fund revenues. Refer to the DOE letter issued to potential phase one implementers based on 1999 AUDSUM revenues in August 2000. That letter was followed by a second departmental correspondence to all districts dated March 2001 that included this table as well as an overview of GASB 34.

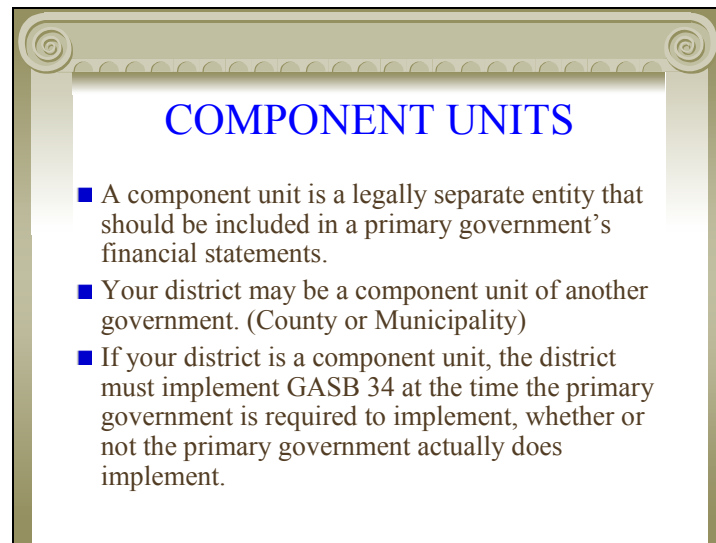




### 1999 REVENUES

- Use total actual revenues from 1999 determined on the modified accrual (GAAP) basis.
- Include only the revenues of your governmental & enterprise funds.
- Exclude transfers-in, extraordinary items, and other fund revenues.
- Exclude capital contributions from an enterprise fund.

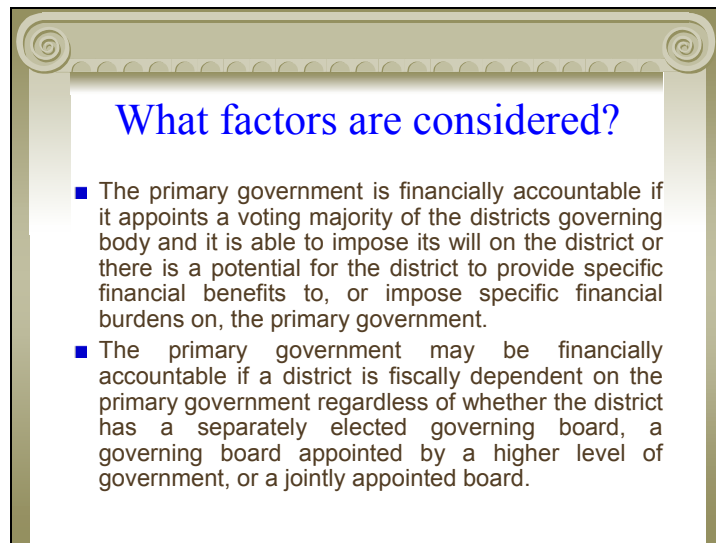
Under GASB 34 capital contributions are reported as revenue in the CAFR. However, in their implementation guide GASB addresses whether capital contributions from an enterprise fund are included in the total annual revenue calculation for purposes of determining the 1999 revenue level. The answer to this question is no. Your CAFR for the year ended June 30, 1999 will properly show enterprise fund capital contributions as a direct addition to equity. It was proper under the 1999 reporting model to include capital contributions of an enterprise fund as direct additions to equity and not as revenue. Thus, the contributions would not be included in the revenue calculation for determining your districts implementation phase.



### COMPONENT UNITS

- A component unit is a legally separate entity that should be included in a primary government's financial statements.
- Your district may be a component unit of another government. (County or Municipality)
- If your district is a component unit, the district must implement GASB 34 at the time the primary government is required to implement, whether or not the primary government actually does implement.

Determining the implementation phase of GASB 34 requires consideration of the concept of component units. A component unit is a legally separate entity that should be included in a primary government's financial reporting entity using the criteria of GASB Statement No. 14. While many New Jersey districts may be component units of another government, few will be considered to be a primary government having component units. If your district is a component unit of another government, your district must implement GASB 34 according to the date the government primary to your district must implement regardless of the amount of your district's total revenues and whether or not the primary government actually implements.



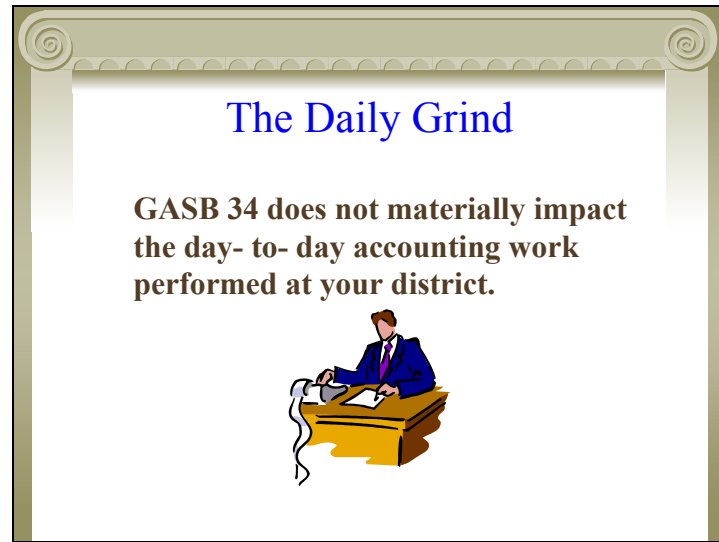
When determining whether your district is a component unit consider whether the following circumstances exist:

- The primary government is financially accountable if it appoints a voting majority of the districts governing body and it is able to impose its will on the district or there is a potential for the district to provide specific financial benefits to, or impose specific financial burdens on, the primary government.
- The primary government may be financially accountable if a district is fiscally dependent on the primary government regardless of whether the district has a separately elected governing board, a governing board appointed by a higher level of government, or a jointly appointed board.

Warning. Don't be tripped up by missing the component unit issue. Look to see if control or strong influence from another entity exists for your district. If yes, you will need to fully address the component unit issue with your auditor and your county or municipality.

Refer to DOE letter dated 12.17.01 wherein the DOE notified all districts of their potential component unit status based on DCA guidance. In that letter, reference is made to the fact that the DCA advised the DOE that County Vocational, County Special Services and Type I school districts are component units of their county or municipality.

Note that all school districts will be required to implement GASB 34 no later than the period beginning July 1, 2003. For perspective, the Department estimates that between 40-60 districts are phase one implementers, 310-320 districts are phase two implementers, and 240-250 districts are phase 3 implementers.



It is important to note that GASB 34 provides financial reporting requirements and does not materially impact the day- to- day transaction driven work performed by your district's accounting and finance staff. As we will discuss in more detail today, GASB 34 greatly influences the CAFR, rather than the day- to- day accounting. The starting point for preparing your district's financial statements under GASB 34 is your modified accrual (Fund) worksheet to which conversion adjustments are made to arrive at the required new statement formats.

### How Might Entries Change?

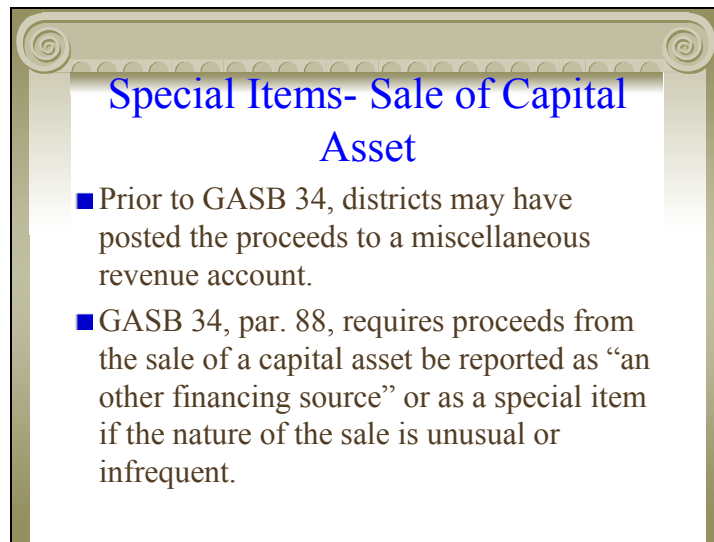
- Issue bonds with a face amount of 1.0M at 97.5 with bond issuance costs of \$25,000:

Cash	DR
Expenditure-D.S.- Bond costs	DR
Other financing use- Bond discount	DR
Other Financing Source- Bond Proceeds	CR

One common entry that will change as a result of GASB No. 34 is the entry to record the issuance of long-term debt and related discount and bond issuance costs. Assume your district issues bonds with a face amount of \$1,000,000 at 97.5 with bond issuance costs of \$25,000. Prior to GASB 34, districts typically recorded the net amount received as an “other financing source.” Under GASB 34, the entry is recorded and reported broad. Using our example, under GASB 34 the entry to the issuing fund to record debt issuance becomes:

	DR	CR
Cash	950,000	
Expenditure-Debt Service-Bond Issue Costs	25,000	
Other Financing Use- Bond Discount	25,000	
Other Financing Source-Bond Proceeds		1,000,000

Note that districts may continue to use the General Long Term Debt Account Group to record the debt related to the issuance. However, for reporting purposes, the account group has been eliminated by GASB 34.

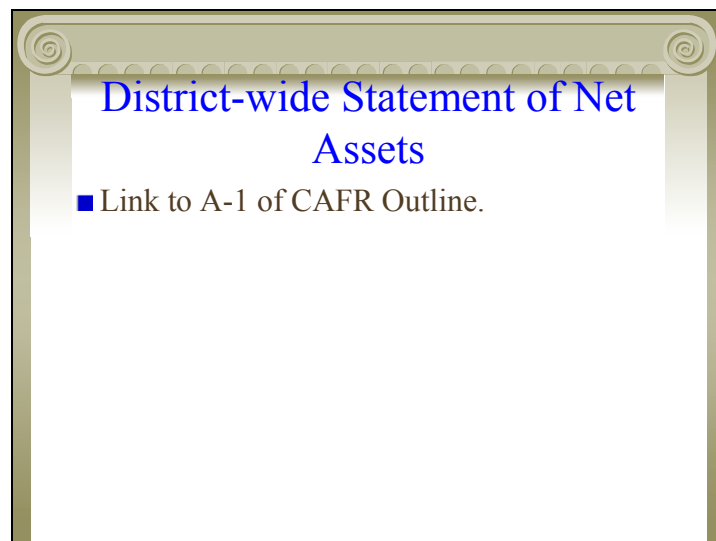


Special Items- Sale of Capital Asset

- Prior to GASB 34, districts may have posted the proceeds to a miscellaneous revenue account.
- GASB 34, par. 88, requires proceeds from the sale of a capital asset be reported as “an other financing source” or as a special item if the nature of the sale is unusual or infrequent.

Another common change will be the posting of proceeds relating to the sale of a capital asset. Prior to GASB 34, districts may have posted the proceeds to a Miscellaneous Revenue account. GASB 34, paragraph 88, requires proceeds from the sale of a capital asset be reported as “an other financing source” or as a special item if the nature of the sale is unusual or infrequent, meaning not in the normal operation of the district.

Slide 16

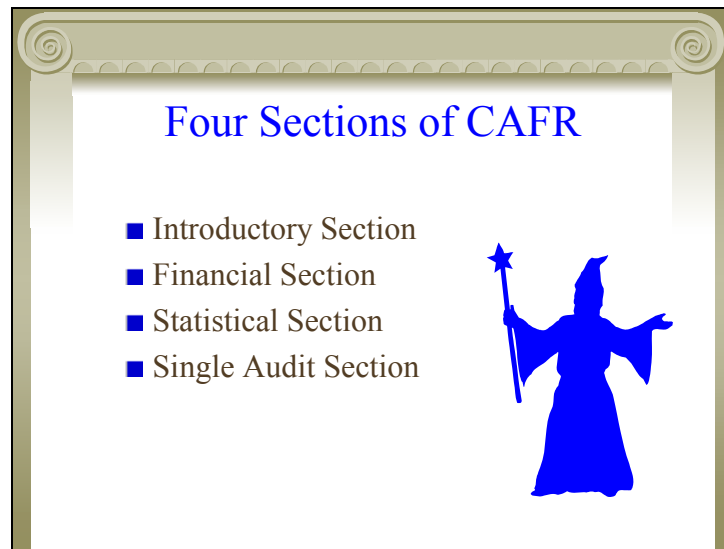


District-wide Statement of Net Assets

- [Link to A-1 of CAFR Outline.](#)

Looking at the Net Assets section of a sample Statement of Net Assets, we see that Districts should also be aware that two previously used equity accounts have been eliminated by GASB 34. The two accounts, Contributed Capital and Retained Earnings, are replaced by three new accounts that will report fund equity. Those three accounts are termed:

1. Invested in Capital Assets, net of related debt;
2. Restricted Net Assets;
3. and Unrestricted Net Assets.



Although many changes have been made to the CAFR , our fictitious friend, the GASB Wizard, did not change the CAFR in its entirety. The 4 major sections previously reported by New Jersey school districts will remain the same. Those sections are:

- Introductory Section
- Financial Section
- Statistical Section and
- Single Audit Section

However, the presentations **within** each of these sections, primarily the financial section, may change. GASB 34 directly impacts the financial section and, therefore, our focus today is on the Financial Section.

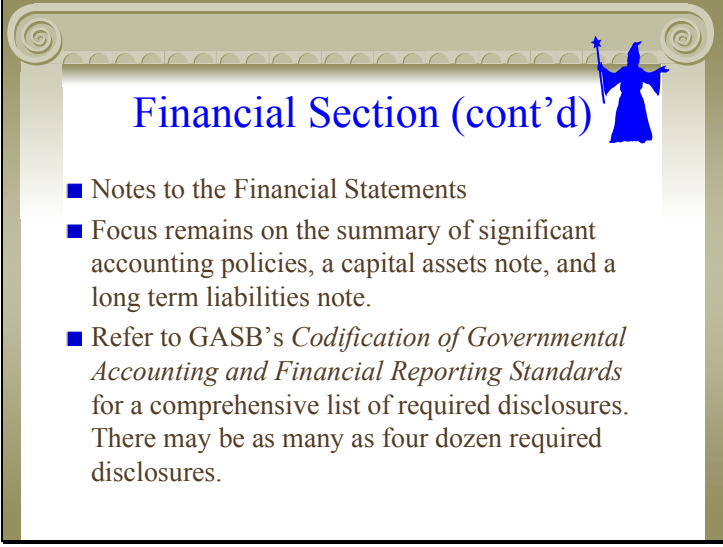
Financial Section	
Pre-GASB 34	GASB 34
Independent Auditor's Report	Independent Auditor's Report
	Required Supplementary Information – Part I Management's Discussion & Analysis
<b>General Purpose Financial Statements:</b>	<b>Basic Financial Statements:</b>
Combined Financial Statements	District-Wide Financial Statements
Combining and Individual Fund and Account Group Statements and Schedules	Fund Financial Statements

This slide and the next provide an overview of the new financial section under GASB 34. GASB is strict in their outline, and New Jersey districts are required to follow the prescribed format. Identical to the presentation prior to implementation of GASB 34, the financial section begins with the Independent Auditor's report. The language of the Independent Auditor's report will change under GASB 34. At this time, however; there is only unofficial report language available. The new report language has not been issued in its final form. One of the obvious changes to the existing language is the removal of any reference to general-purpose financial statements. Such reference should be replaced with reference to the basic financial statements. (Reference the anticipated issuance of the AICPA audit guide September 2002).

After the Independent auditor's report, GASB 34 adds a section titled Required Supplementary Information- Part I. This important new section contains the Management's Discussion and Analysis also referred to as the MD&A. GASB 34 places the Basic Financial Statements after the MD&A.

The Basic Financial Statements include the District-wide Financial Statements and the Fund Financial Statements. Note the disappearance of the pre- GASB 34 general-purpose financial statements including the combined financial statements and the disappearance of the combining and individual fund and account group statements and schedules from the GASB 34 reporting model. Although GASB 34 has eliminated the terminology, New Jersey districts will continue to provide these statements as other supplementary information. This can clearly be seen in the handout of the CAFR outline you received today.

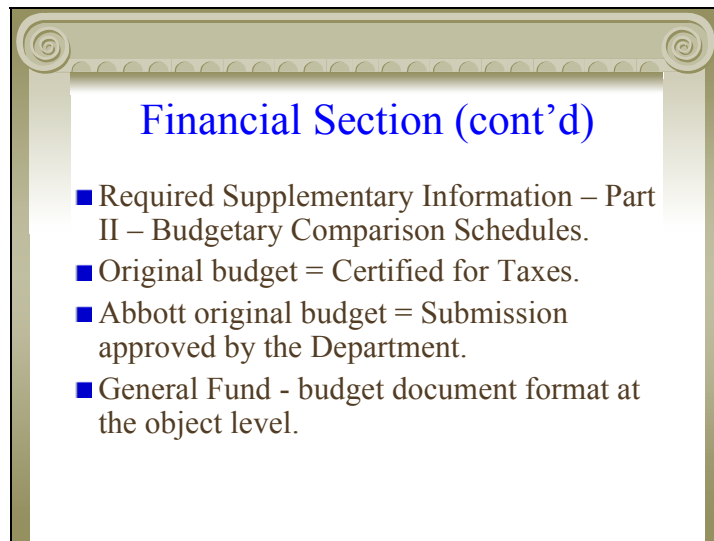




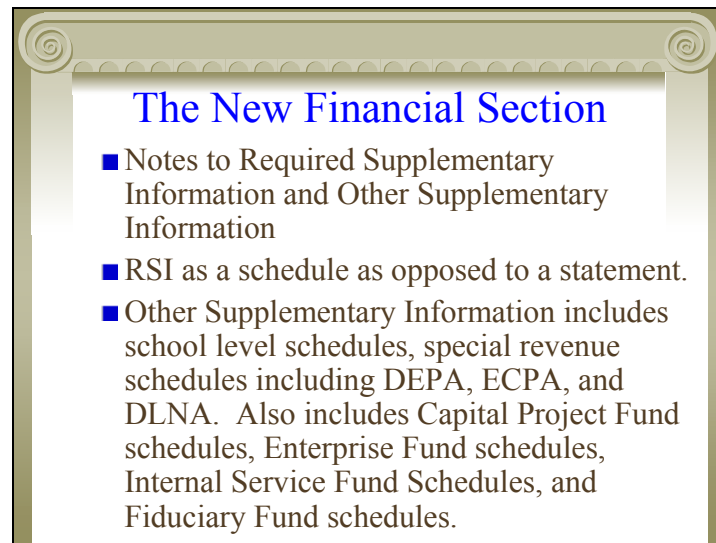
### Financial Section (cont'd)

- Notes to the Financial Statements
- Focus remains on the summary of significant accounting policies, a capital assets note, and a long term liabilities note.
- Refer to GASB's *Codification of Governmental Accounting and Financial Reporting Standards* for a comprehensive list of required disclosures. There may be as many as four dozen required disclosures.

After the Basic Financial Section appears the notes to the financial statements. For many New Jersey districts, the major components of the notes section remain the summary of significant accounting policies, a capital assets note, and a long-term liabilities note. The department suggests districts refer to GASB's *Codification of Governmental Accounting and Financial Reporting Standards* for a comprehensive list of required disclosures prior to preparing their financial statement notes.

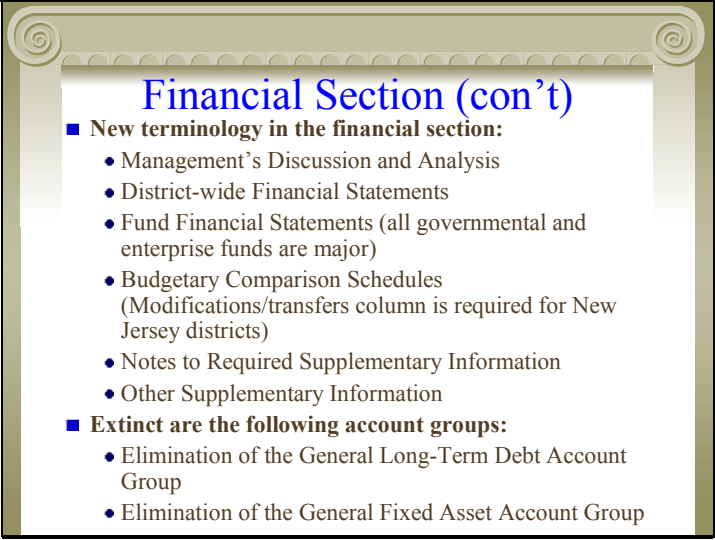


After the financial statement notes, appears Required Supplementary Information- Part II- Budgetary Comparison Schedules. Districts are to use the original budget defined as the budget that has been certified for taxes. Abbott districts are to use the budget submission that has been approved by the Department. It is important to note that GASB 34 permits the budgetary comparison schedules to be prepared using the same format, terminology, and classifications as the budget document **or** the same format, terminology, and classifications as the statement of revenues, expenditures, and changes in fund balance. In the interest of uniformity in reporting among New Jersey districts, the department will require that the budgetary comparison schedules be prepared in the same format as the **budget document** that is prepared at the object level for the general fund.



Next appears the notes to the required supplementary information. The recommended approach in the accounting standards is to present the budgetary comparison as an RSI schedule as opposed to a statement. GASB 34 presents the option to present the budgetary comparison as either a statement or a schedule. In the interest of uniformity in reporting for New Jersey districts, the department has selected the recommended option from the options presented by GASB 34, that is to present the budgetary comparisons as schedules. Had the department elected to present the budgetary comparisons as statements rather than as schedules, the reconciliation note would not be in notes to RSI, but would have been presented in notes to the financial statements.

The financial section concludes with other supplementary information. This section will include school level schedules, special revenue schedules including DEPA, ECPA, and Distance Learning Network Aid. Also appearing in the other supplementary information section are the Capital Project Fund schedules, Enterprise Fund schedules, Internal Service Fund schedules, and Fiduciary Fund schedules.



### Financial Section (con't)

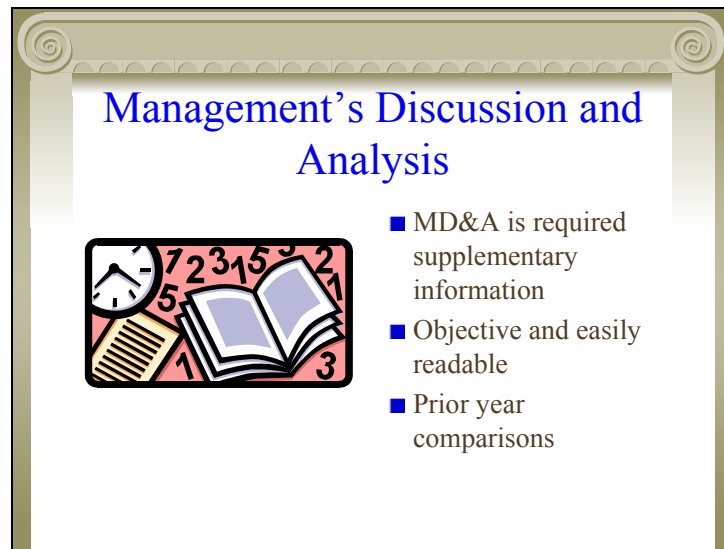
- **New terminology in the financial section:**
  - Management's Discussion and Analysis
  - District-wide Financial Statements
  - Fund Financial Statements (all governmental and enterprise funds are major)
  - Budgetary Comparison Schedules (Modifications/transfers column is required for New Jersey districts)
  - Notes to Required Supplementary Information
  - Other Supplementary Information
- **Extinct are the following account groups:**
  - Elimination of the General Long-Term Debt Account Group
  - Elimination of the General Fixed Asset Account Group

The next several slides will allow us to review the financial section again and take a closer look at some of the new terminology introduced by GASB 34 and included in the financial section. GASB describes the Management's Discussion and Analysis as an introduction to the Basic Financial Statements. The MD&A is an overview and analysis, prepared by a district's finance officers, of the information in the district's financial statements. MD&A is a form of required supplementary information and it is placed before the basic financial statements.

District-wide financial statements are financial statements that, with the exception of fiduciary activities, cover all of the district's financial transactions. They appear first among the basic financial statements and include the statement of net assets and the statement of activities. Again, it is important to note that fiduciary activity is not included in the district-wide financial statements.

Fund financial statements appear after the district-wide financial statements and report the finances of a district's governmental, proprietary, and fiduciary funds. Budgetary comparison schedules compare data from a school district's original and final budgets with actual results. GASB's intent with statement 34 is to present the most meaningful financial statements for state and local governmental entities. The department believes the public would benefit from the presentation of a modifications column in between the original and final budget presentation. We will discuss this requirement along with the next two items on this slide, notes to required supplementary information and other supplementary information in more detail shortly.

Under GASB 34, gone from the financial statements are the general long-term debt account group and the general fixed asset account group.

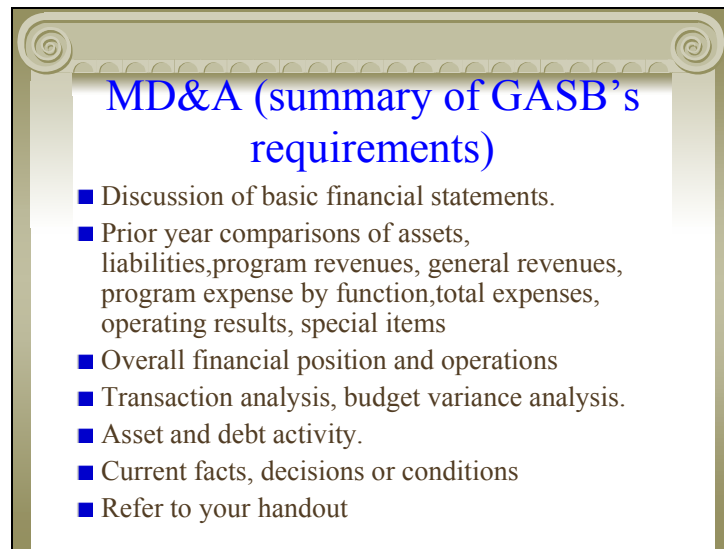


Let's expand our discussion of Managements' Discussion and Analysis. MD&A is an important addition to the financial section. The MD&A is an opportunity for the district's financial managers to discuss the district's financial situation. Although similarities exist between the letter of transmittal and the MD&A, the MD&A is specific as to permissible subject matter and covers four broad reporting areas including:

- Conceptual information about your district's financial statements
- An analysis of the financial information in the statements
- Activities during the year regarding capital assets and long-term debts, and
- Currently known facts bearing on the future finances of the district

GASB states the MD&A should provide an objective and easily readable analysis of the government's financial activities based on currently known facts, decisions, or conditions. MD&A provides financial managers with the opportunity to present both a short- and a long-term analysis of the government's activities. The presentation should discuss the current-year results in comparison with the prior year, with emphasis on the current year. Note that the department, in compliance with GASB 34, no longer requires comparative year statements to be presented along with the current year upon implementation of GASB 34 by your district. However, at the district's discretion, comparative year statements may continue to be presented.

Should your district elect to not present comparative year statements, reference to the prior year is not altogether eliminated. The MD&A is the section of the report where comparisons with the prior year will be addressed. GASB states the fact-based analysis should discuss the positive and negative aspects of the comparison with the prior year. GASB encourages the use of charts, graphs, and tables to enhance the understandability of the information conveyed.



GASB states that its intention is to avoid boilerplate discussions and the MD&A should report only the most relevant information. GASB 34 presents the minimum requirements for the MD&A. For purposes of this training session, the summarized MD&A requirements are:

- A discussion of the basic financial statements
- Prior year comparisons focusing on total assets and total liabilities, with disclosures addressing short-term versus long-term elements. Prior year comparisons of program revenues, general revenues, and total revenues. Prior year comparisons of program expenses by function, at a minimum. Prior year comparisons of total expenses. Prior year comparisons of operating results, special and extraordinary items, transfers, change in net assets and ending net assets
- An analysis of the district's overall financial position and results of operations
- An analysis of balances and transactions of individual funds
- An analysis of significant variations between original and final budget amounts
- A description of significant capital asset and long-term debt activity during the year
- A description of currently known facts, decisions or conditions that are expected to have a significant effect on future financial position or results of operations

The items to be included in the MD&A are limited to those specified by GASB 34. To aid you in preparing the MD&A and to review the detailed requirements of the MD&A, district personnel should consult with GASB 34 paragraphs 8 through 11.

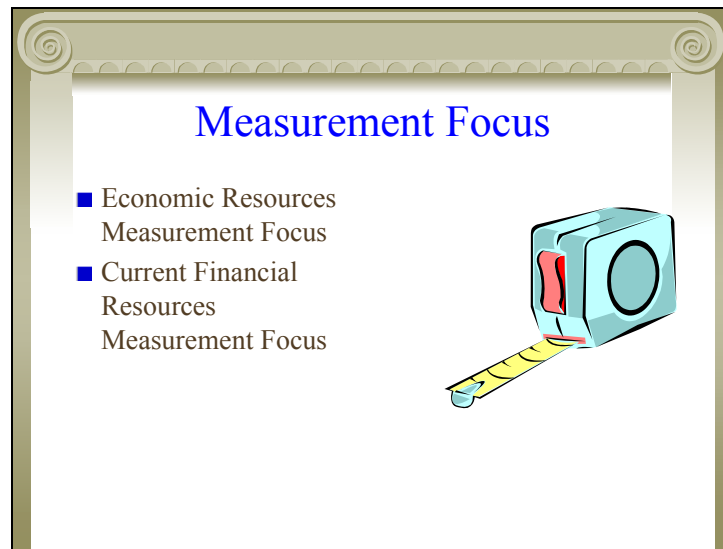
With reference to the prior year comparison requirements, district finance personnel should be aware of a helpful hint that may ease the workload when preparing their initial MD&A. As discussed, since comparative financial statements are not a requirement of GASB 34, school districts might not have readily available comparative information such as total net assets for the previous year. However, as we will discuss during our presentation today, districts will need to restate and/or record their opening

balances- which are last years ending balances- within the conversion worksheet that will move you from the fund statements to the district-wide statements. If your district is implementing GASB 34 for the year ending June 30, 2002, another action step you should leave with today, if you haven't already done so, is to begin the conversion process now. You will need to convert your ending balances from June 30, 2001 to the GASB 34 statement format in order to have accurate beginning balances for July 1, 2001. You may then use these balances for both the MD&A and the current year statement conversion worksheet.

Slide 25

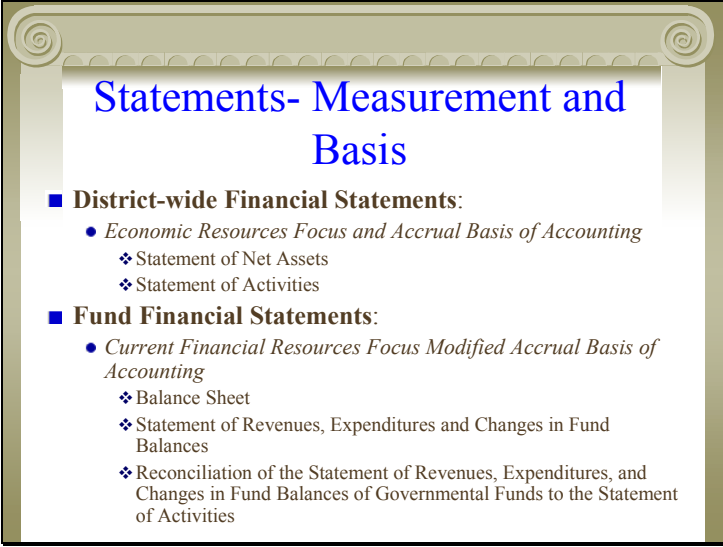
<b>Accounting Basis</b>		
<b>Basis of Accounting</b>	<b>Modified Accrual</b>	<b>Accrual</b>
Revenue	Available and measurable	Earned and measurable
Expense	Recognize in the accounting period in which the fund liability is incurred, and measurable. Records expenditures. LTD when due.	Recognize in the accounting period in which the liability is incurred and measurable. Records expenses.

Accounting basis and measurement focus are the foundation upon which the financial statements required by GASB 34 are built. Recall the nuances between the different basis of accounting which may be applied to the financial statements. Under the modified accrual basis of accounting, revenue is recognized when both available and measurable. Available generally means "available for use within 60 days of year-end." The accrual basis of accounting recognizes revenue when the revenue is both earned and measurable. Earned refers to an inflow as being "reasonably certain to be collected." Modified accrual is more conservative, only recording revenue if payment is actually received during the year or soon enough thereafter (60 day convention) to pay current year liabilities. One additional item of concern is accrued interest on long-term debt. Accrued interest expense on long term debt does not follow the 60 day convention. Districts may accrue the interest liability when the interest is "due early in the next fiscal year." The period referred to as "due early in the next fiscal year" has been defined in paragraph 13 of GASB Interpretation No. 6 as "one to several days but not more than one month." GASB 34 provides specific guidance regarding the requirements surrounding differing accounting methods. Note that the budgetary basis is not included in the table. This is because GASB 34 does not restrict the budgetary method of accounting.



Measurement focus is the other critical element that determines whether a transaction will be recorded and reported within a particular statement. Measurement focus relates to the kinds of transactions a district records for a reporting period. The economic resources measurement focus reports all measurable financial transactions whether long or short-term in nature. The current financial resources measurement focus reports current items only, such as cash, accounts receivable, and accounts payable. Non-current items such as capital assets and long-term debt are not reported when using the current resources focus.





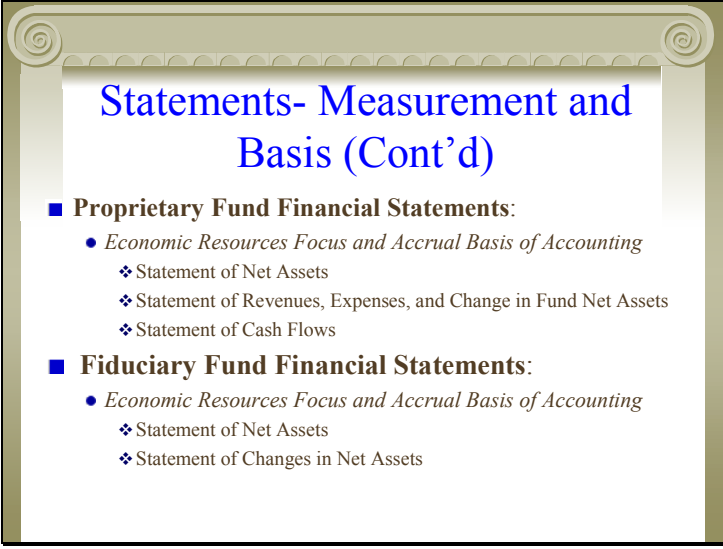
## Statements- Measurement and Basis

- **District-wide Financial Statements:**
  - *Economic Resources Focus and Accrual Basis of Accounting*
    - ❖ Statement of Net Assets
    - ❖ Statement of Activities
- **Fund Financial Statements:**
  - *Current Financial Resources Focus Modified Accrual Basis of Accounting*
    - ❖ Balance Sheet
    - ❖ Statement of Revenues, Expenditures and Changes in Fund Balances
    - ❖ Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities

This slide now in view and the following slide, address the different measurement focus and basis of accounting applied to the various financial statements required by GASB 34. These two important concepts are worthy of review. Measurement focus relates to the certain characteristics of the transactions a district will record. The economic resources measurement focus reports all measurable financial transactions whether long or short term. The current financial resources measurement focus reports current items only. There are two methods of accounting basis that impact the required financial statements under GASB 34. The accounting basis refers to the timing of the recording of the transaction and how the transaction is recorded. The accrual basis of accounting recognizes revenue when the revenue is both earned and measurable. Modified accrual records the transaction only if it completes during the reporting period or within 60 days of the end of the reporting period.

The statement of net assets and the statement of activities are the two district-wide statements required by GASB 34. The district-wide financial statements are based upon the economic resources focus and the accrual basis of accounting. Thus the district-wide financial statements include all of the districts' activities, except for the fiduciary activities, and reports all measurable financial transactions whether long or short term, and recognizes revenue when earned and measurable and expenses when incurred and measurable.

The fund financial statements are prepared based upon the current financial resources focus and the modified accrual basis of accounting. The five governmental fund statements include a balance sheet, statement of revenues, expenditures and changes in fund balances and a reconciliation of the statement of revenues, expenditures, and changes in fund balances of governmental funds to the statement of activities. Thus, the governmental fund financial statements report for the fund type current financial resources only recording revenues when available (60 days) and measurable and expenses when incurred and measurable.

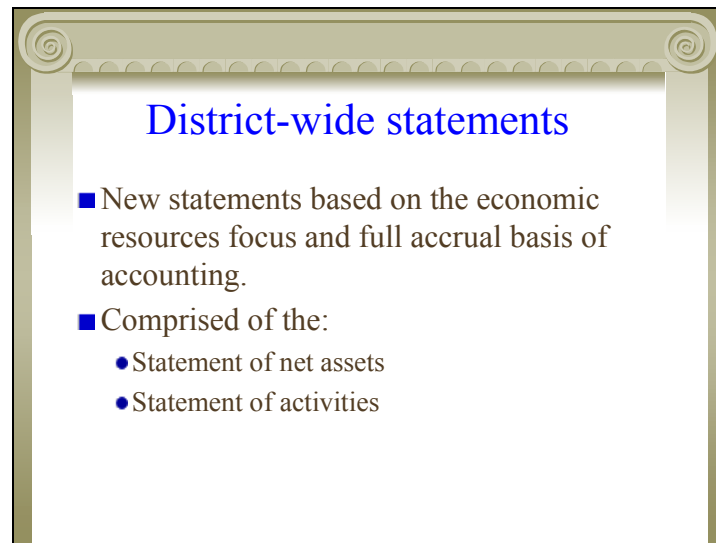


## Statements- Measurement and Basis (Cont'd)

- **Proprietary Fund Financial Statements:**
  - *Economic Resources Focus and Accrual Basis of Accounting*
    - ❖ Statement of Net Assets
    - ❖ Statement of Revenues, Expenses, and Change in Fund Net Assets
    - ❖ Statement of Cash Flows
- **Fiduciary Fund Financial Statements:**
  - *Economic Resources Focus and Accrual Basis of Accounting*
    - ❖ Statement of Net Assets
    - ❖ Statement of Changes in Net Assets

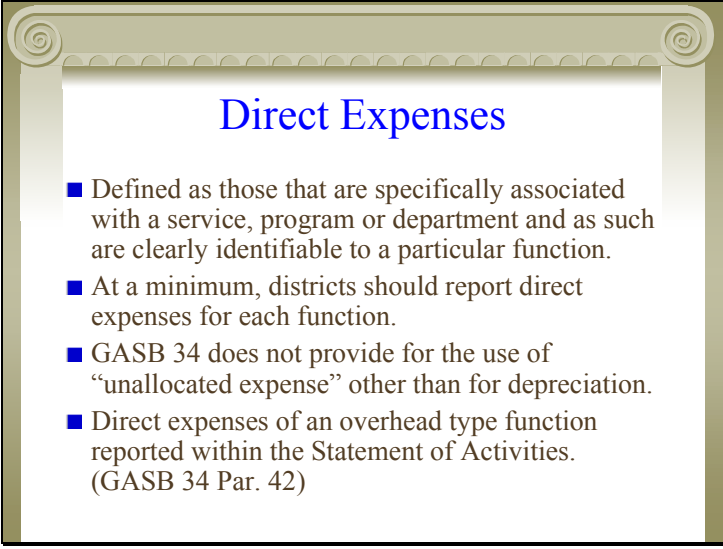
The proprietary fund financial statements include a statement of net assets, statement of revenues, expenses and changes in fund net assets, and a statement of cash flows. The proprietary fund financial statements are also prepared on the economic resources focus (all transactions, whether short or long term) and the accrual basis of accounting.

Last are the fiduciary fund financial statements. The fiduciary fund financial statements include a statement of net assets, and a statement of changes in net assets. The fiduciary fund financial statements are prepared based upon the economic resources focus and the accrual basis of accounting.



Recall the next item of new terminology from our earlier slide, “District-wide financial statements.” These statements are designed to cover all of a district’s activities, except fiduciary activities. The District-wide financial statements include a Statement of Net Assets and a Statement of Activities as Pat will illustrate shortly. The Statement of Net Assets compares the assets your district owns with the liabilities it owes as of the statement date. The statement reports the accounting relationship of “assets minus liabilities equals net assets.”

The Statement of Activities reports a district’s expenses, revenues and other changes in its net assets during the year, as well as net operating results. The Statement of Activities displays expenses at the same level of detail as in the governmental funds statements. GASB 34, Paragraph 41, states “governments should report all expenses by function except for those that meet the definitions of special or extraordinary items.” The department requires expenses be displayed at the *functional level* of detail in accordance with GASB paragraph 41.

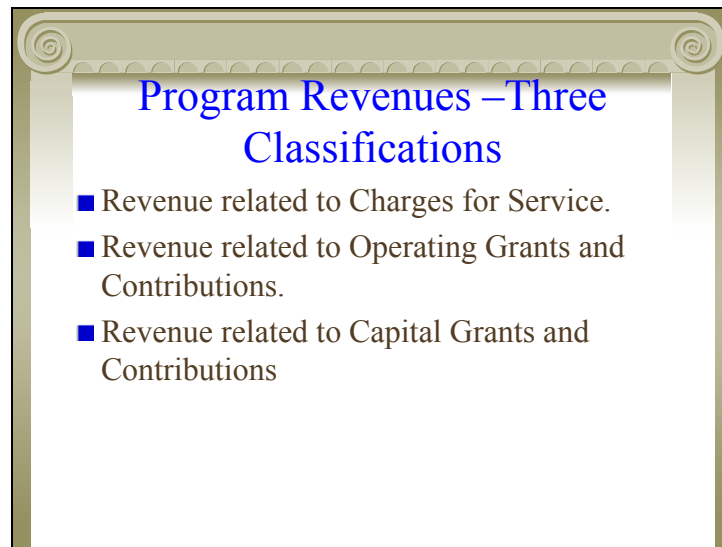


### Direct Expenses

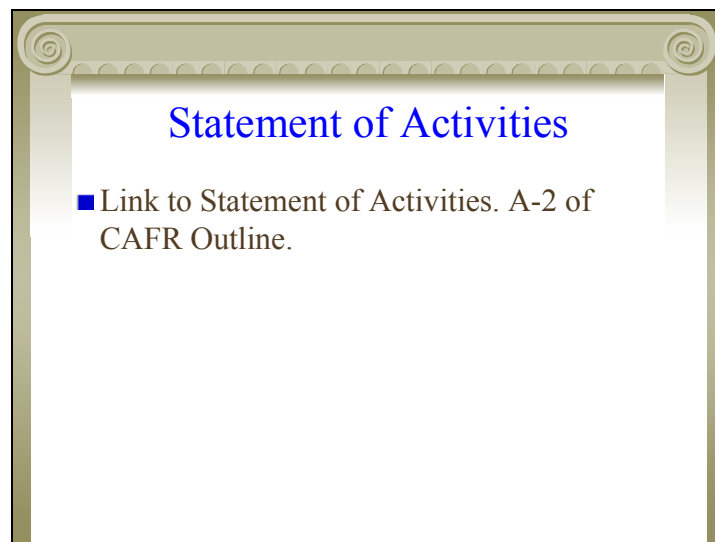
- Defined as those that are specifically associated with a service, program or department and as such are clearly identifiable to a particular function.
- At a minimum, districts should report direct expenses for each function.
- GASB 34 does not provide for the use of “unallocated expense” other than for depreciation.
- Direct expenses of an overhead type function reported within the Statement of Activities.  
(GASB 34 Par. 42)

GASB 34 defines direct expenses as “those that are specifically associated with a service, program or department and as such are clearly identifiable to a particular function.” At a minimum, New Jersey districts should report direct expenses for each function. Recall that we discussed that a portion of depreciation expense for shared assets might not be allocated to a function due to inefficiencies in the allocation process. This portion is clearly labeled as unallocated depreciation. It is important to note that GASB 34 does not provide for the use of the “unallocated expense” category other than for depreciation expense.

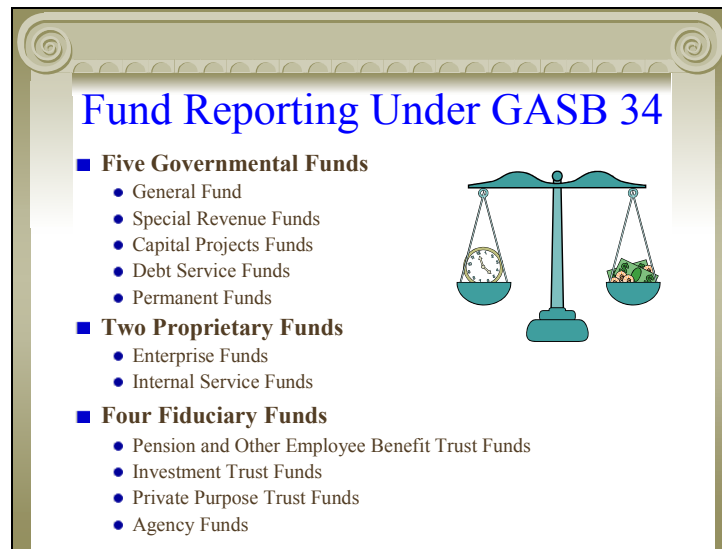
Another area of concern regarding the presentation of expenses is the direct expenses of some overhead functions such as administration, support services, and interest expense. Paragraph 42 of GASB 34, indicates that such items may be reported as direct expenses of an overhead type function as opposed to indirect expenses that could be allocated to the other functions. Again, GASB 34 does not permit us to report such items as unallocated expenses. The expenses, allocated by function, are then compared directly with program revenues.



Program revenues are presented among three classifications. The first type is revenue produced by an activity's fees and charges. The second is revenue received as operating grants and contributions. The third type is revenue received as capital grants and contributions specifically for that activity.



Using specific titles, program revenues are displayed in columns, by function, to the right of the expense category. Note that General revenues are not displayed above the line. GASB's apparent intent here is to present the reader with the cost of the activity exclusive of the general revenues—which includes property taxes. The presentation clearly displays the cost of the program before general revenues are factored in. General revenues are shown in the bottom portion of the statement and reduce the operating deficit.



Fund reporting under GASB 34. Funds are the fiscal and accounting entities created by a district for the purpose of tracking the finances of a particular activity or group of similar activities. GASB 34 presents specific funds available to report the financial activities of your school district. Depending on your district's operations, your district may or may not have each of the funds specified by GASB.

The district-wide statements include all funds except for the fiduciary funds, since fiduciary fund assets are not available for use by the district to finance district activities. Moving down the ladder from the district wide financial statements, on the next rung appear the fund financial statements. The components of the fund financial statements are the governmental funds that provide information about the district's short-term or current operations. The proprietary funds that analyze the activities the district runs similar to a for-profit business entity such as food services. The fiduciary funds that display information about resources the district manages on behalf of others.

The first of the five governmental funds is the general or operating fund. The general fund is comprised of resources most closely related to the provision of education and not required to be recorded and reported in another fund. All districts have an operating or general fund.

The special revenue funds track revenue sources that are legally restricted to specific uses.

The capital projects funds are used to build, acquire, and renovate major general capital assets.

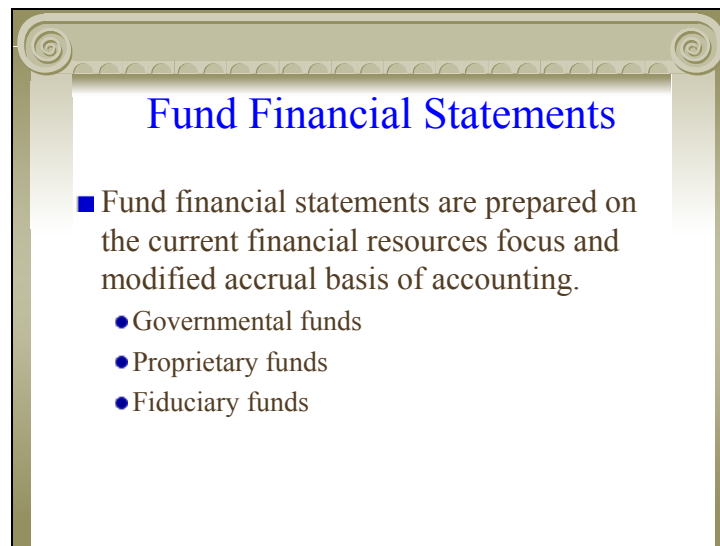
The debt service funds are used to account for resources used to repay general long-term debt.

The permanent funds report resources, usually donated and legally restricted so that the earnings on investments may be used for a stated purpose, but the principle remains in tact.

The first of the two proprietary funds are the enterprise funds. The enterprise funds account for activities directed toward recipients outside of the regularly served population and tend to operate more like a for-profit activity. The second of the proprietary funds are the internal service funds. The internal service funds record activity surrounding the provision of services to other parts of the district. An example provided by GASB is a division that buys basic classroom cleaning supplies, arranges equipment leases and service contracts.

GASB 34 specifies four fiduciary funds the first of which is the pension and other employee benefit trust funds. Pension and other employee benefit trust funds account for resources held in trust for the members and beneficiaries of various employee benefit plans. The next fiduciary fund type is the investment trust funds followed by private purpose trust funds which report all other trust arrangements such as an honors/awards program funded by citizen contributions. Last on the list are agency funds. Agency funds report assets held on a temporary and custodial basis. Resources held by a district on behalf of a student organization are agency funds.

Slide 34



The fund financial statements are comprised of the:

- Governmental funds
- Proprietary funds, and the
- Fiduciary funds

The governmental funds provide information about the district's short-term operations. The proprietary funds report the activities the district runs similar to a for-profit business entity such as food services. The fiduciary funds display information about resources the district manages on behalf of others.

Each fund title has funds that are categorized within the fund type based upon that fund's individual characteristics. We will address the individual fund possibilities shortly. The three fund titles displayed here flow into the Fund Financial Statements that include the Balance Sheet and the Statement of Revenues, Expenditures, and Changes in Fund Balances.

## Major Funds

- All governmental and enterprise funds are major funds for New Jersey school districts.
- Display all major funds individually.

Slide 35


GASB 34 states that major funds are a district's most significant governmental and enterprise funds. Based on a set formula prescribed by GASB 34, districts should determine which of their funds are considered major funds. The general fund is always considered major. Major funds are displayed individually on the financial statements while non-major funds are combined. This next point is very important to New Jersey districts. The New Jersey ASBO task force, in accordance with paragraph 76 of GASB 34, has elected to require New Jersey School Districts to treat all governmental and enterprise funds as major funds. The basis for this determination is the potential importance placed on these funds by users of the financial statements as well as state and federal reporting requirements. New Jersey districts therefore are not required to perform the major fund determination calculation as set forth in GASB 34. Accordingly, New Jersey districts must display the general fund and all other governmental and enterprise funds individually and not combined.

Slide 35



### GASB 34 –Fund Accounting What's Still In

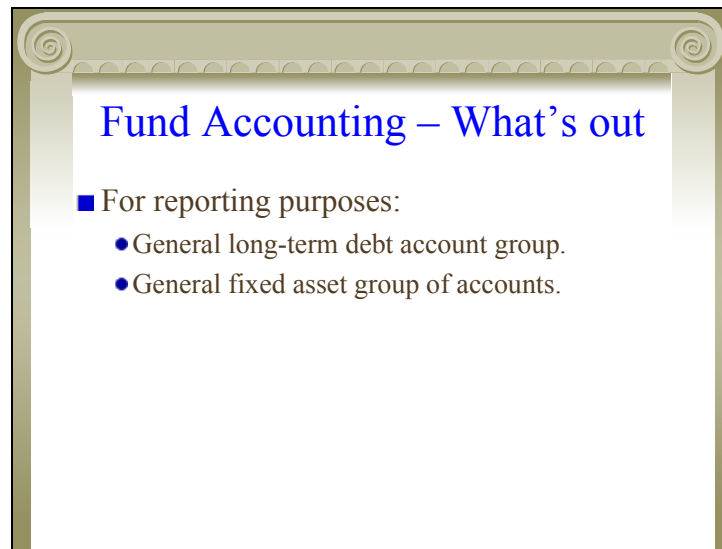
- Major funds - all funds
- Budget basis unchanged
- Reconcile budget basis actual results with GAAP from the fund statements. Refer to page 271 of GASB 34.



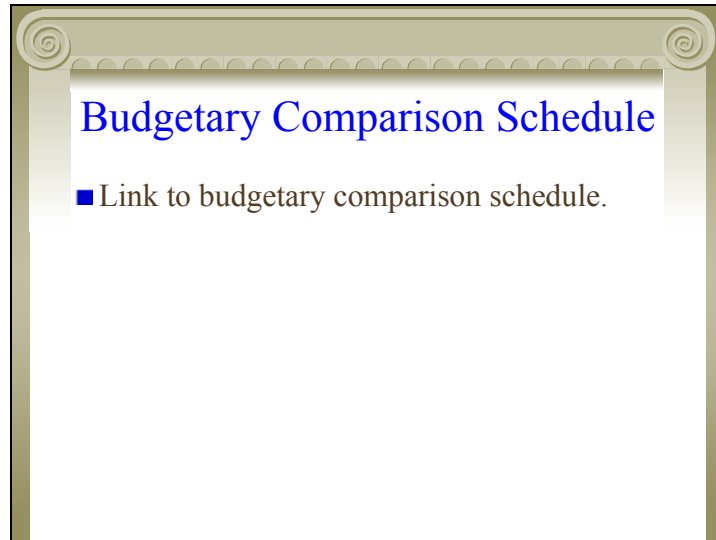
To reiterate, New Jersey districts may not combine funds in a single column. In other words, all of the governmental and enterprise funds maintained by your district must be displayed individually.

The next item on this slide is the budgetary basis of accounting. It is state law or the grant documents that specify the accounting basis to be utilized for budget preparation. This remains unchanged by the implementation of GASB 34.

The last item on this slide addresses the requirement to perform a reconciliation between the budgetary basis actual results with GAAP from the fund statements. Page 271 of GASB 34 provides a useful example of this reconciliation. GASB requires budgetary comparison statements or schedules for the general fund and each special revenue fund for which the district legally adopts an annual budget. Recall from an earlier slide the term “notes to required supplementary information.” As previously stated, New Jersey districts will present their budgetary comparisons as schedules. As such, GASB then requires the budget to GAAP reconciliation be presented as a note to RSI.



Recall the dinosaur from several slides ago. We have two familiar account groups that are now extinct due to GASB 34. For reporting purposes, GASB 34 has eliminated the general long-term debt account group and the general fixed asset group of accounts. As discussed previously, districts should continue to record transactions into these funds for tracking purposes pending chart of account revisions. However, those funds must be eliminated for financial statement purposes.



Additionally, GASB 34 requires a budgetary comparison schedule. A sample schedule is now in view. The department will require New Jersey districts to report a “modifications or transfers” column between the original budget and final budget columns of the budgetary comparison schedule. The modifications/transfers column will contain transfers, allocations and supplemental appropriations from the original budget to arrive at the final budget. The modifications/transfers column will aid the reader in gaining a perspective on how well the district prepared its original budget. Pat will review this schedule in more detail shortly.

Whole School Reform and GASB Statement Number 34			
Required Supplementary Information – Part II (GASB 34)		Pre-34	34 Implemented
		Non- Abbott	Abbott
<b>C. Budgetary Comparison Schedules:</b>			
Budgetary Comparison Schedule General Fund	B-3	C-1	C-1
Combining Budgetary Comparison Schedule General Fund	B-4	----	C-1/a
Budgetary Comparison Schedule Special Revenue Fund	----	C-2	C-2
<b>Notes to Required Supplementary Information</b>			
Budget-to-GAAP Reconciliation	----	C-3	C-3

This slide and the following slide represent parts C and D from the CAFR outline. The CAFR outline is also available in the audit program, the Department's web site and in the hand-out materials distributed today.

C-1 refers to the budgetary comparison schedule for the general fund that we presented on a previous slide. This schedule is similar to the pre-GASB 34 B-3.

C-2 presents the budgetary comparison schedule for the special revenue fund. The format for this schedule is the same as the general fund schedule. The department requires a "modifications/transfers" column be placed in between the original and final budget columns of this schedule as well.

C-3 refers to the budget to GAAP reconciliation we discussed in an earlier slide.

Abbott districts are required to present budgetary comparison schedules for the combined general fund and for the special revenue fund as part of Required Supplementary Schedules as presented by GASB 34. Additionally, Abbott districts should include a combining budgetary comparison schedule, item C-1/a from the CAFR outline, for the general fund. This includes funds #11-13, and fund 15.

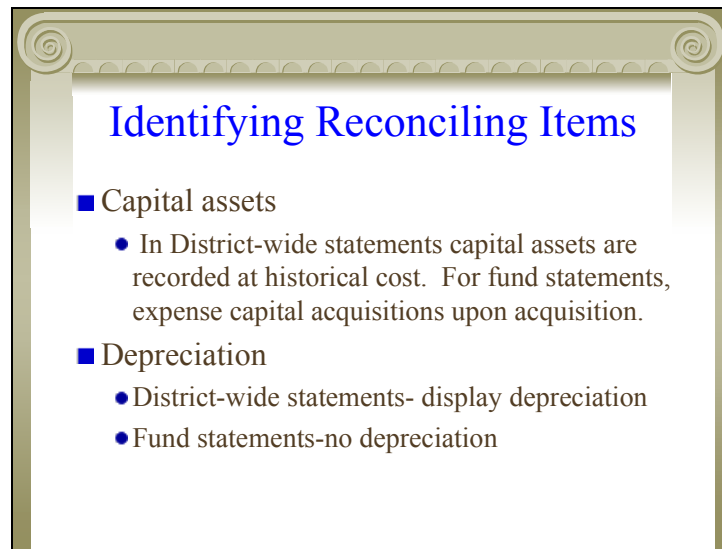
Whole School Reform and GASB Statement Number 34 (Cont'd)			
	<u>Pre-34</u>	<u>34 Implemented</u>	
		Non- Abbott	Abbott
<b>Other Supplementary Information:</b>			
<b>D. School Level Schedules (General Fund):</b>			
Combining Balance Sheet	B-2	----	D-1
Blended Resource Fund – Schedule of Expenditures Allocated by Resource Type - Actual	B-5	----	D-2
Blended Resource Fund – Schedule of Blended Expenditures – Budget and Actual	B-6	----	D-3

Section D of Other Supplementary Information contains additional information for Abbott districts. Note the continuing requirement to present a single column general fund as part of the fund financial statements. Refer to the CAFR outline B-1 and B-2. D-1 presents the combining balance sheet for whole school reporting districts. Item D-1 under GASB 34 is the same as the B-2 CAFR schedule prior to GASB 34. The Combining Balance Sheet presents the first column as Operating Funds 11-through 13. The next column is the blended resource fund 15. The two columns are then added to create the third column titled “total general fund.”

Schedule D-2 presents the Blended Resource Fund Schedule of Expenditures Allocated by Resource Type – Actual. Schedule D-2, under GASB 34 is the prior schedule B-5. The Department has changed the title from statement to schedule in accordance with the provisions of GASB 34.

Schedule D-3, the blended resource fund schedule of blended expenditures- budget and actual, is the former B-6 statement. Again, the Department has changed the title from statement to schedule.

Note that with regard to the school level schedules in Part D, no change has taken place in the preparation. The change is only in the location within the CAFR.



This slide introduces some common reconciling items that occur due to the differing measurement focus and accounting basis applied to or within the different statements:

- Reporting capital assets at their historical cost and depreciating them as opposed to treating capital acquisitions as expenditures when incurred. The district- wide statements record the asset at historical cost and depreciate the asset over its useful life while the fund statements report an expenditure at the time the transaction occurs.

More Reconciling Items	
<ul style="list-style-type: none"> <li>■ Accruals</li> <li>■ Long-term Liabilities</li> </ul>	
<u>District Wide</u>	<u>Fund</u>
<i>Short and long Term</i>	<i>Short term focus only</i>

This slide displays more reconciling items.


- **Accruals.** A district may reduce accounts receivable and deferred revenue for those amounts that were not available to pay current-period expenditures. Another common accrual item is compensated absences. GASB 34 paragraphs 31 and 119c require governments to report and disclose the portion of compensated absences that is due within one year of the statement date. The general rule is compensated absences liabilities become due upon the occurrence of relevant events such as resignations, retirements, and uses of leave balances by covered employees. Because the timing of such events is difficult to know with certainty, districts are to continue to project the current portion of compensated absences based upon current information, historical trends and district policy. Note the district-wide statement of net assets includes separate line items for the current portion of the long-term liabilities and for the non-current portion of the long-term liabilities. Compensated absences are reported as a component of the long-term liabilities separated into the current portion and non-current portion of long-term liabilities. In the fund statements, since the focus is short-term, only the current portion of the long-term liabilities is reported. Thus a reconciling item will occur.
- The last reconciling item on this slide is Long-term liabilities. The district-wide statements include the current and non-current portion of long term liabilities including lease purchase obligations, bonds and notes payable, and compensated absences. The fund statements only include the current portion. This variation results in a reconciling item.

Transaction Comparison	
<u>District Wide and Non-Governmental Funds</u>	<u>Governmental Funds</u>
Accrual and Economic	Modified Accrual & Current
Loan:	Loan:
Cash (+)	Cash (+)
LTD (+)	Fund Balance (+)
Cap. Asset:	Cap. Asset:
Cash (-)	Cash (-)
Capital Asset (+)	Fund Balance (-)
Expense:	Expense:
Depreciation	No Depreciation
Interest Expense	Interest expense

Different methods of recording the same transaction may also result in reconciling items. For example, a district acquiring a capital asset financed by borrowing could result in a reconciling item. The district-wide and nongovernmental funds statements, which are prepared on the accrual basis and economic resource focus, will record an increase in cash in the amount of the loan, and a liability, long-term debt. Upon the purchase of the asset, cash decreases and capital assets increase by the purchase price. Asset depreciation will be recorded each year in the district-wide statements. As the debt is paid down the district will record interest expense and a reduction of the long-term debt. The governmental funds, however, report on the modified accrual basis and focus on current financial resources. As such, the governmental funds record an increase in cash in the amount of the loan, and an increase in fund balance (not an increase in liabilities since the debt is not a current liability). Assuming the asset is a school building, the increase in fund balance is recorded in the capital projects fund. Upon the purchase of the asset, cash decreases and the fund balance is reduced in the amount of the purchase price. The purchase price is reflected as an expenditure in the year of acquisition, no capital asset is reported, and no depreciation recorded. As the debt is paid down the district records a decrease in cash, increase in interest expense and an expenditure in the debt service fund in the amount of the principle paid resulting in a decrease in fund balance equal to the combined interest and principle paid. When differences derived from varying accounting methods as in our example result in differing figures of assets, liabilities, revenues or expenditures, districts must provide the statement reader with a reconciliation of the differences between statements. The next slide reviews the possible statement reconciliations.



## Financial Statement Reconciliations



- Fund balance amount in the total column of the governmental funds balance sheet (B-1) to the net assets amount on the Statement of Net Assets (A-1). (modified accrual vs accrual)
- Change in fund balance in the total column of the governmental funds statement of revenues, expenditures and changes in fund balances – governmental funds (B-2) to the change in net assets amounts on the statement of activities(A-2). (modified accrual vs accrual) (B-3)
- Proprietary funds statement of fund net assets (B-4) to the net assets amount (business type) on the statement of activities (A-1). (accrual vs accrual)

The slide now in view and the following slide, address the five possible financial statement reconciliations required by GASB 34. The amounts reported in the fund financial statements may not agree to those reflected in the government-wide financial statements because of measurement differences and because of differences in the activities included. GASB requires explanations for these differences be presented as either summary reconciliations to the government-wide financial statements found at the bottom of the fund financial statements or in an accompanying schedule.


This slide may be easier to follow if you view it in conjunction with the CAFR outline from your handout package.

- The first bulleted item on this slide is the reconciliation of the fund balance amount in the total column of the governmental funds balance sheet to the net assets amount on the statement of activities. GASB 34 paragraph 77 states “Governments should present a summary reconciliation to the government wide financial statements at the bottom of the fund financial statements or in an accompanying schedule.” Recall the concept of accrual vs modified accrual. Refer to the CAFR index in your handout package. At the very bottom of the first page, item B-1 represents the governmental funds balance sheet. At the bottom of the district’s governmental funds balance sheet or in an accompanying schedule, would appear the reconciliation of the total governmental funds fund balance to the ending net assets amount, governmental activities, of the Statement of Net Assets, which is statement A-1 of the index.
- The second bullet is the reconciliation of the change in fund balance in the total column of the governmental funds statement of revenues, expenditures and changes in fund balances-governmental funds (modified accrual basis) (B-2) to the change in net assets on the statement of activities (accrual basis) (A-2). Optionally, GASB 34 permits the reconciliation to appear at the bottom of the statement of revenues, expenditures, and changes in fund balances, governmental funds. The CAFR outline presents this reconciliation as its’ own item. Refer to B-3.

- The next potential reconciliation is the proprietary funds statement of fund net assets to the net assets amount on the statement of activities. Refer to items B-4 and A-1 from the CAFR index. Note that both the statement of activities and the proprietary funds statement of fund net assets are prepared using the economic resources measure and the accrual basis. Thus, this reconciliation will not usually be necessary.

### Reconciliations (Cont'd)

- Total change enterprise fund net assets in the proprietary fund statement of revenues, expenses, and changes in fund net assets(B-5) to the change in net assets of business-type activities in the statement of activities(A-2). (accrual vs accrual)
- GASB 34 Paragraph 130 requires budgetary comparison schedules for the general fund and for each special revenue fund that has a legally adopted annual budget. (C-1 and C-2) These schedules should be accompanied by a reconciliation of the budget to the GAAP information. (C-3 of CAFR outline).

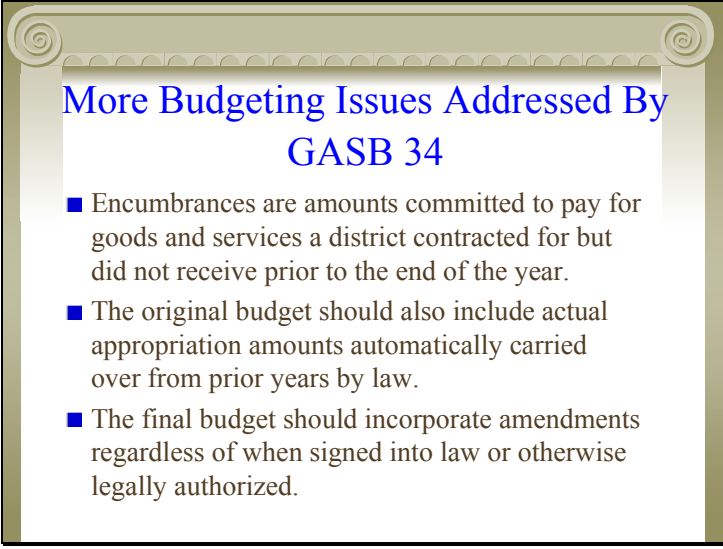


- The next financial statement reconciliation is the reconciliation of the total change in enterprise fund net assets in the proprietary fund statement of revenues, expenses, and changes in fund net assets to the change in net assets of business-type activities in the statement of activities. This reconciliation is based upon two accrual basis statements and as such may not be necessary. That is, the amount reported as total enterprise fund net assets and changes in net assets in the proprietary fund financial statements usually are the same as net assets and changes in net assets of business-type activities in the government-wide financial statements. However, there may be differences that require reconciliation. If for instance, the district has an enterprise fund (one of the proprietary funds) that due to special characteristics, is categorized as a governmental activity in the district-wide statements, then it will provide a reconciliation of the change in business type activity net assets per the statement of activities to the change in net assets of the enterprise funds statement of revenues, expenses, and changes in fund net assets. The placement of the reconciliation should be at the bottom portion of the proprietary funds statement of revenues, expenses, and changes in fund net assets or in a separate schedule.
- The last bulleted item is the budget to GAAP reconciliation. Paragraph 130 of GASB 34 states the requirements for a budget to GAAP reconciliation. Generally, districts will present their reconciliation of budget-basis actual results from their budgetary comparison schedule for the general fund (C-1) with the GAAP (modified accrual) basis of the general fund column from the statement of revenues, expenditures, and changes in fund balances (B-2). When the budget basis is GAAP (modified accrual), no reconciliation is necessary. Districts are also required to present similar reconciliations of their special revenue funds as well. GASB 34 permits some leeway to decide how best to present the reconciliation. Originally, GASB had determined the budgetary comparisons and the related reconciliations should be presented only as RSI. The final statement however, permits presentation of the budgetary comparisons and related reconciliations

as either a basic financial statement with the fund financial statements or as Required Supplementary Information. Note that the GASB board in their basis for conclusions states its belief that the budgetary schedule should be part of RSI. Accordingly, the CAFR outline for New Jersey Districts presents the budgetary reconciliations as notes to RSI. New Jersey districts may consider presenting a schedule wherein the general fund and special revenue fund reconciliations are presented side by side as a note to RSI.

Revenue	
SOURCES OF FINANCING	TYPES OF REVENUE
Those who purchase, use, or directly benefit from the goods or services of a program.	Program Revenue
Parties outside the reporting government's citizenry, such as other governments and nongovernmental entities or individuals.	If restricted to a specific program, program revenue. If unrestricted, general revenue.
The reporting government's taxpayers, whether or not they benefit from the program.	General revenue, even if restricted to a specific program.
The reporting government itself, for instance through investing.	General Revenue.

This schedule, a summary of GASB paragraph 47, is a valuable tool borrowed from the December 2001 issue of *CPE Direct* Published by the AICPA. The schedule summarizes the various revenue types. New Jersey districts should prepare a worksheet listing each of their revenue sources and corresponding amounts for the year designating their revenues as program revenues or general revenues. This information will be useful for the district upon final statement preparation. Additionally, paragraph 50 of GASB 34 provides guidance on program specific grants and contributions. The salient point of that paragraph, is that if a grant is a categorical grant which finances a large number of programs, if that grant does not specifically restrict the amount of the grant specifically allocated to each program, the grant is reported as general revenue. The department recommends you refer to this schedule as you prepare your districts statement of activities. Schedule A-2 from the CAFR outline.

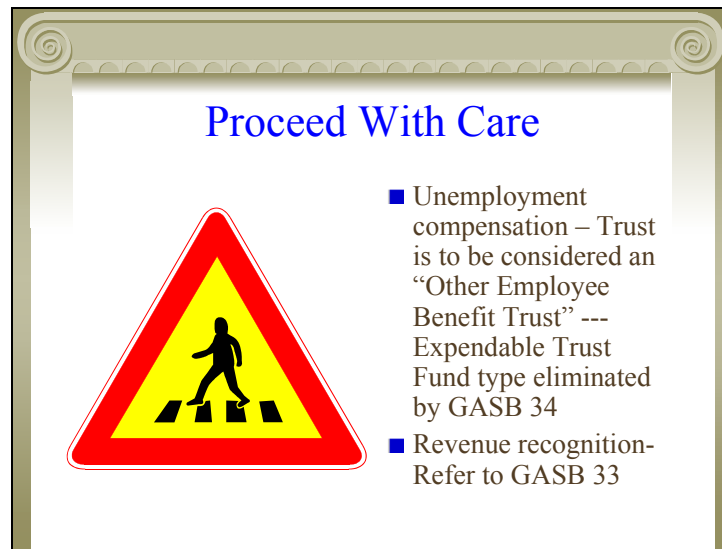


### More Budgeting Issues Addressed By GASB 34

- Encumbrances are amounts committed to pay for goods and services a district contracted for but did not receive prior to the end of the year.
- The original budget should also include actual appropriation amounts automatically carried over from prior years by law.
- The final budget should incorporate amendments regardless of when signed into law or otherwise legally authorized.

Budgeting issues addressed by GASB 34. Encumbrances are amounts committed to pay for goods and services a district contracted for but did not receive prior to the end of the year. Paragraph 130a of GASB 34 states that the original budget should also include actual appropriation amounts automatically carried over from prior years by law. This means that where prior-year encumbrances exist, a provision should be made in the next year's adopted budget including such encumbrances.

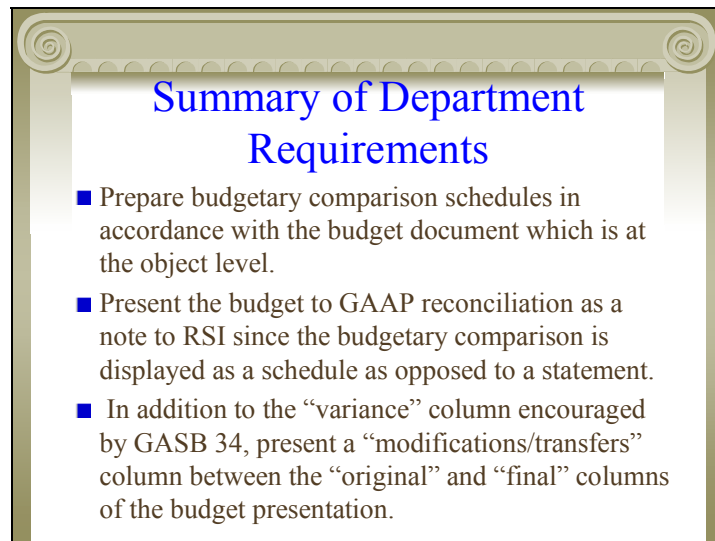
Paragraph 130b states that the final budget should incorporate amendments regardless of when signed into law or otherwise legally authorized.



Two topics related to GASB 34 are worthy of mention. The first topic is Unemployment Compensation trust funds. New Jersey districts may select from among two methods of funding their unemployment claims. Districts may choose the contributory option or the reimbursement option of funding claims. Under either funding method, if the district establishes an unemployment trust fund to maintain employee and employer contributions, such trusts are to be treated as an “Other Employee Benefit Trust Fund.” Note that GASB 34, footnote 34 to paragraph 67b requires **state** unemployment compensation funds to be reported as enterprise funds but does not extend this provision to entities that are setting aside funds as participants of the state unemployment compensation funds. Based on this observation, and the fact that the district is not the primary beneficiary of the funds, the department’s position is that unemployment compensation funds maintained by the district are included among the first of the four types of fiduciary funds—Pension and Other Employee Benefit Trust Funds.

If a district were granted approval to use surplus funds to augment operating revenue, the funds removed from trust should be recorded as miscellaneous income in the general fund. However, the facts and circumstances surrounding the use of such funds should be considered when deciding how to record the transaction.

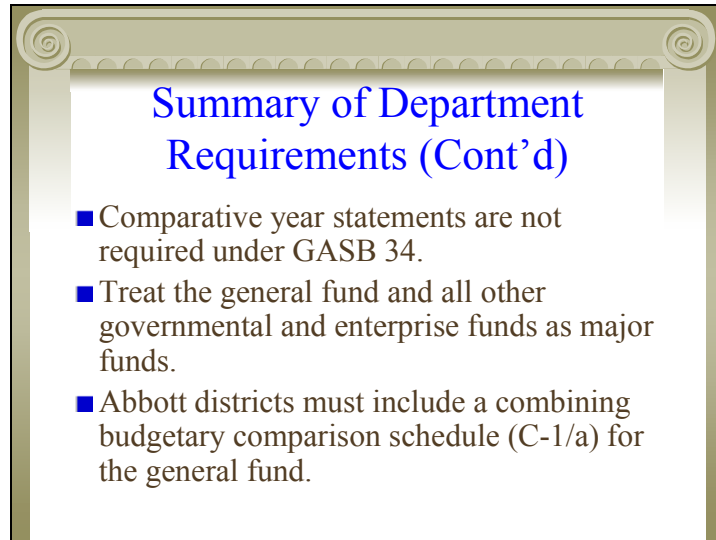
The second related topic is revenue recognition. GASB 34 requires district-wide accrual basis statements that by definition recognize revenue when earned and measurable. GASB 33 identifies four classes of nonexchange transactions. The second of which is termed Imposed nonexchange revenues and should be considered by New Jersey districts implementing GASB 34. Type two revenues result from assessments imposed on nongovernmental entities, including individuals, other than assessments on exchange transactions. Examples presented by GASB 33 include property taxes. The department recommends that upon implementation of GASB 34 your district consult with your auditor and with the municipality to determine whether revenue potentially recorded by the municipality should be recorded by the district as a receivable and deferred revenue in your accrual statements in accordance with the symmetry principle presented in paragraph 54 of GASB 33.



The slide currently in view and the next two slides, are a summary of the Department's positions presented today.

- Prepare budgetary comparison schedules in accordance with the budget document, that is, at the object level and format.
- Present the budget to GAAP reconciliation as a note to RSI since the budgetary comparison is displayed as a schedule as opposed to a statement.
- In addition to the GASB encouraged “variance” column, present a “modifications/transfers” column between the “original” and “final” columns of the budget presentation.

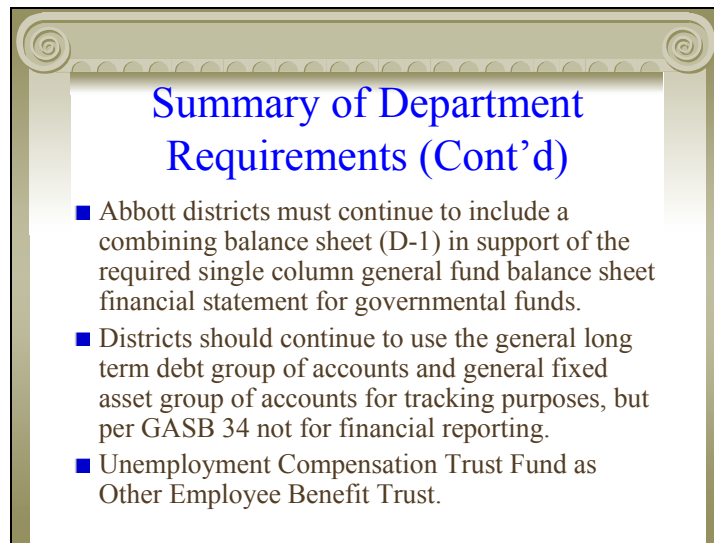




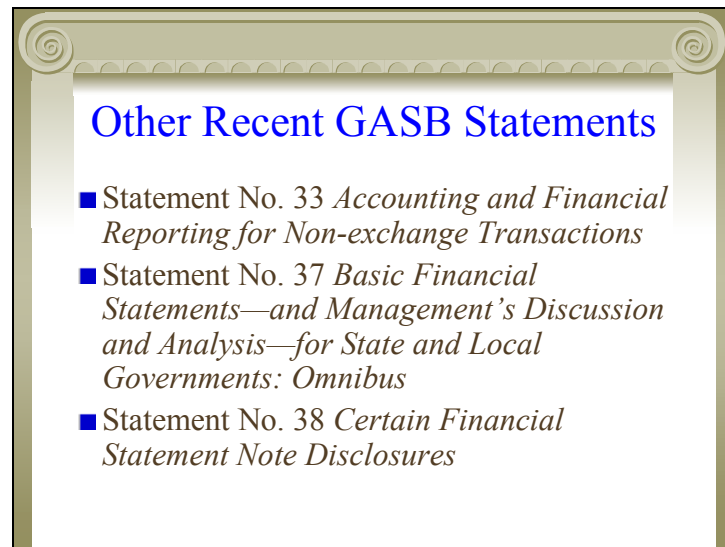
### Summary of Department Requirements (Cont'd)

- Comparative year statements are not required under GASB 34.
- Treat the general fund and all other governmental and enterprise funds as major funds.
- Abbott districts must include a combining budgetary comparison schedule (C-1/a) for the general fund.

- Comparative year statements are not required under GASB 34.
- Treat the general fund and all other governmental and enterprise funds as major funds.
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- Abbott districts must continue to include a combining balance sheet (D-1) in support of the required single column general fund balance sheet financial statement for governmental funds.
- Districts should continue to use the general long-term debt group of accounts and general fixed asset group of accounts for tracking purposes, but not for financial reporting.
- Districts are to treat unemployment compensation trust funds as other employee benefit trust funds.



GASB has issued several other statements worthy of your review. Full copies of the statements are available from GASB at [GASB.org](http://GASB.org). The statements are GASB No. 33, 37 and 38.

- Statement No. 33 Accounting and Financial Reporting for Non-exchange Transactions
- Statement No. 37 Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments: Omnibus
- Statement No. 38 Certain Financial Statement Note Disclosures

## Conversion of Financial Statements

- Worksheet Approach
- Begin your district's conversion once modified accrual (GAAP) entries are recorded into the books and records
- Step one is to restate beginning balances
- Step two is to prepare conversion entries and worksheet

The conversion of the fund-based statements to district-wide financial statements begins after modified accrual (GAAP) entries are recorded in the books and records. The department suggests that you take a worksheet approach to the conversion.

As Pat will illustrate, the first step in converting to district-wide financial statements is to restate certain beginning balances using your fund-based worksheet. Several common entries you might make to restate beginning balances involve capital assets, long-term debt, and deferred revenue.

Recall that New Jersey districts that have implemented GASB 34 may continue to maintain the general fixed asset account group and the general long-term debt account group for recording transaction throughout the year until such time as an updated chart of accounts becomes available. A worksheet entry will be recorded as part of the year-end conversion process transferring the balances in those account groups to the Statement of Net Assets.

This concludes the theory portion of our presentation. When we return from our break, Pat will take us through worksheets and statements. We invite you to submit your questions during the break. There are restrooms in the lobby and a deli in the building closest to the stadium.

## GASB 34 - NJ

- Policy positions –
  - Major funds = all funds
  - Variance and Budget transfers on Budgetary Comparison Schedules
  - Comparative (prior year) data is not required
- Not GASB 34, but...
  - Capitalization threshold
  - Component units

## Now - Where Do We Begin???

- [Outline of the CAFR](#)
- Changes
  - New - Accrual basis district-wide statements
  - Out - Comparative schedules
  - Out - Account group statements

## Sample Statements for NJ School Districts

- Sample statements on NJDOE web site  
[www.state.nj.us/njded/finance/fp/gasb34/](http://www.state.nj.us/njded/finance/fp/gasb34/)
- Follow GASB 34 illustration formats
- Upper right corner notes GASB 34 illustration number [GASB B-1]

## Other Supplementary Information

- Schedules presented after the Required Supplementary Information
- [Outline of the CAFR](#)
- School-level schedules (Abbott districts)

## Other Supplementary Information - Special Revenue Fund

- New, but not GASB 34
  - No transfers of ECPA
  - No ECPA Capital Reserve account
- Schedules, not statements

## Required Supplementary Information

All districts

- Management Discussion and Analysis (MD&A)
- Budgetary Comparison Schedules and Notes
  - General fund (C-1)
  - Special revenue fund (C-2)
  - Reconciliation of Budgetary to GAAP (C-3)

Abbott Districts

- Combining Budgetary Comparison Schedule (C-1a)

## Budgetary Comparison Schedules

- Original
  - Non-Abbott districts- certified for taxes
  - Abbott districts- as approved by the department
- Transfers
- Final Budget
- Actual
- Variance
- Comparatives are not required
- Format of the budget, not the financial statement

Slide 61

## Funds Statements

- Governmental Funds
- Proprietary Funds
- Fiduciary Funds

Slide 62

## Funds Statements – Governmental Funds

- Balance Sheet (B-1)
- Statement of Revenues, Expenditures, and Changes in Fund Balance (B-2)
- Reconciliation (B-3)
- Other Funds Statements
- Proprietary funds
  - Statement of Net Assets (B-4)
  - Statement of Revenues, Expenses and Changes in Fund Net Assets (B-5)
  - Statement of Cash Flows (B-6)
- Fiduciary funds
  - Statement of Fiduciary Net Assets (B-7)
  - Statement of Changes in Fiduciary Net Assets (B-8)

Slide 63

## Conversion to Accrual

- Worksheet
- Capital Assets
- Long-term debt

Slide 64

## District-wide Statements

- Statement of Net Assets
- Statement of Activities

Slide 65

Statement of Net Assets  
Statement of Activities  
Notes To The Financial Statements

- GASB 34
- GASB 38
- Check the NJDOE web site

Slide 66

What This Means

- Simplified top level statements
- Apples and apples, not apples and oranges
- Economic resources including capital assets and long term debt

Slide 67

Next Steps

- Have the capital assets and long term debt schedules ready
- Try out the templates on the NJDOE web site
- Guides and references